

Case Study Proposal

RobinHood

What Is It

RobinHood is an internet stock trading platform that offers unlimited *commission free* trading for

- stocks in U.S. public companies,
- ETF's (exchange traded funds),
- Stock options, and
- Cryptocurrencies

How can they do this? Their revenue comes from sources that other brokers might consider ancillary, such as

- Lending: RobinHood can lend the idle cash in its customers' accounts, much as a bank does. RobinHood can also lend stock held in customers' accounts (Stock lending is a big business because a short sale is actually a sale of borrowed shares, so short sales cannot proceed until the relevant shares are borrowed.).
- Margin: For a fee, RobinHood extends credit to customers to buy securities with, an arrangement known as "buying on margin".

RobinHood customers primarily access the RobinHood trading platform via an easy-to-use mobile app, in contrast to the PC focus of most of the more established players, such as Schwab or E*Trade. This, of course, appeals to RobinHood's target market, i.e. Millennials, a demographic segment that has been under-served by established banks and brokerage firms. Another Millennial-friendly difference between RobinHood and the others is that RobinHood accounts have no minimum deposit.

In 2018, RobinHood developed its own clearing operation (See below for link explaining this.).

Last December, RobinHood announced that they plan to offer no-fee, no-minimum checking accounts with a 3% interest paid on account balances, a far better deal than established banks. This offering should be viewed as part of a larger initiative to make "RobinHood look like a full-service consumer finance company," in the words of co-founder Baiju Bhatt (See link to CNBC story below).

Why This Matters

RobinHood's fee structure (or, rather, no-fee structure) illustrates the dramatic cost savings that efficient internet processing can provide. It also demonstrates how such processing can disrupt the commission-based business model of other, more established on-line brokerages, such as Fidelity or Charles Schwab. And on-line stock trading is an enormous business, serving as one of the two killer apps that powered the growth of the internet in the 1990's (the other was internet pornography).

Not surprisingly, then, RobinHood's growth has been spectacular. Even though it was founded in 2013, it

has more customers than E*Trade Financial, which was founded in 1982. Jan Hammer of Index Ventures, an early investor, thinks that RobinHood will indeed execute on Bhatt's vision, stating "They're going to be the Amazon of financial services."

Certainly, there is much in financial services that is ripe for disruption. Why do *average* credit card interest rates hover at 14% per annum, for example, even though credit card providers also extract additional transaction fees from merchants? OK, these interest charges and fees must cover lots of credit card fraud, but the incumbents are not doing as much as they could to mitigate it (like eliminating the deluge of unsolicited credit card mail-in offerings that criminals can so easily use to generate phony accounts).

In any case, RobinHood's demonstrated ability to provide extremely inexpensive financial services at scale suggests that it is a business to watch.

Why This May Be Interesting

By studying RobinHood's business model, students will learn a classic story of dot-com disruption. By studying RobinHood's app, students will learn about how stock trading works: the different kinds of orders, what short selling is (and why RobinHood customers can't do it), what clearing is, etc. By studying associated informational materials, such as the business news in "RobinHood Snacks," students will learn about investing in general.

As stated above, one of the killer apps for the entire internet was on-line trading, and that hasn't gone away. As a result, RobinHood is growing extremely fast. As of about 8 months ago, they had about 250 employees, but the Bloomberg Businessweek article states that "RobinHood plans to add 150 back-office and customer service employees to its Orlando operation, and hundreds more in Menlo Park."

RobinHood also has significant competition, most notably Coinbase for cryptocurrency trading and lower prices from the more established players. All of these organizations are looking for talent.

Things to Keep in Mind for a Case Study

- A summary of the "growth of RobinHood" articles listed as Resources below, including a discussion of how RobinHood made stock trading more efficient and more appealing, and thus disruptive of the existing trading business.
- A discussion of
 - what the assets listed above actually are, and why they (may) play a useful role in the larger economy
 - concepts related to each of the above asset classes, such as "cryptocurrency wallets", "option strike price", "option volatility",
 - the various kinds of trades in each asset class that can be made and how they get executed (trading mechanics) in the context of a demo of the RobinHood app
- How RobinHood has automated the settlement of securities transactions (see link below)

- A review of RobinHood's technology stack, available from siftery.com (see link below)

Resources:

- [https://en.wikipedia.org/wiki/Robinhood_\(company\)](https://en.wikipedia.org/wiki/Robinhood_(company)) (Wikipedia page)
- <https://about.robinhood.com/>
- <https://www.bloomberg.com/news/features/2018-02-08/brokerage-app-robinhood-thinks-bitcoin-belongs-in-your-retirement-plan> (tales of the growth of RobinHood, including comparison with Amazon)
- <https://www.investopedia.com/robinhood-review-4587919> (Review of RobinHood, with complaints about how little research they offer, perhaps motivated by Investopedia's established brokerage clients.).
- <https://support.robinhood.com/hc/en-us/articles/360001397126-What-s-Clearing-by-Robinhood> (An explanation of RobinHood's clearing and settlement process. Since everybody has to do the same thing, this is a good introduction to what needs to be done, in general.)
- <https://www.cnbc.com/2018/05/11/how-commission-free-trading-app-robinhood-tries-to-make-money.html> (discusses RobinHood's growth plans)
- https://siftery.com/company/Robinhood?utm_campaign=Robinhood&utm_medium=techstack&utm_source=quora (RobinHood's technology stack; apparently this has been verified with RobinHood employees)